



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-272988

September 12, 1996

The Honorable Richard L. Greene
Chief Financial Officer
Department of State

Dear Mr. Greene:

This letter responds to the April 15, 1996, request from the Department of State's Managing Director of International Financial Services that we review the Mexico City Financial Services Center's (FSC) efforts to reconcile 31 accounts under United States Disbursing Officer (USDO) symbol 8531¹-30 active foreign currency bank accounts and a U.S. dollar bank account. As you know, the Mexico City FSC was closed in May 1996 and its functions transferred to the Charleston, South Carolina, FSC. In March 1996, we reported to you on our earlier assessment of the Mexico City FSC's draft bank reconciliation guidelines and the Department of State's actions to reconcile and close 24 inactive foreign currency bank accounts under USDO symbol 6203.²

Overall, we found that the reconciliation work completed through April 30, 1996, on the 31 active accounts we were asked to review was thorough and conscientious; however, much work remained to be done. We also found that the Mexico City FSC was involved in reconciling additional accounts that we had not been asked to examine: 18 foreign currency bank accounts under USDO symbol

¹A USDO is authorized to disburse agency funds and is accountable to the U.S. Treasury for cash in banks and on hand under account numbers assigned by Treasury.

²State Bank Reconciliation Letter to CFO Richard L. Greene (GAO/AIMD-96-51R, March 13, 1996).

8531; 48 foreign transaction fund accounts held on behalf of other U.S. government agencies;³ and accountable balances for U.S. government funds, which required reconciliation and clearance by 22 post cashiers and the Mexico City FSC disbursing officer.

Given the May 1996 closure of the Mexico City FSC, the termination or transfer of experienced personnel, and the inherent risk of losing records, it is critical that all Mexico City FSC accounts be fully reconciled and necessary adjustments be made to book records and Department of the Treasury reports. This action is necessary to complete the accurate transfer of the accounting function to the Charleston FSC, which is now projected to occur by September 30, 1996.

MEXICO CITY FSC HAS COMPLETED
RECONCILIATION OF SOME ACCOUNTS

The State Department's Foreign Affairs Manual (4 FAM 352) requires that disbursing officers perform monthly reconciliations of each bank account to maintain strong internal controls, promptly investigate differences, make adjustments to facilitate accurate financial reports, and prevent misuse of government funds. However, as discussed in our March 1996 letter, the FSC had not reconciled the 31 accounts that we had been asked to review since the first account was opened in September 1990. The State Department had reported in its Federal Managers' Financial Integrity Act reports to the President and the Congress since fiscal year 1990 long-standing problems in reconciling the Mexico City FSC's foreign currency bank accounts. The Closeout Reconciliation Unit (CRU) from the State Department's International Financial Services in Washington, D.C., began to reconcile active foreign currency bank accounts at the Mexico City FSC in January 1996.

The Mexico City FSC ceased vendor payments from its active bank accounts in December 1995 and payroll disbursements in February 1996. These functions were transferred to the Charleston FSC, which became responsible for making these payments from newly opened foreign currency bank accounts. As activity ceased and amounts were transferred, the Mexico City FSC's bank account

³The 48 foreign transaction fund accounts include 14 of the additional 18 foreign currency bank accounts.

balances were reduced from \$68.6 million on February 29, 1996, to \$3.0 million on April 30, 1996.⁴

Of the 30 active foreign currency bank accounts under USDO symbol 8531, as of April 30, 1996, the CRU had completed reconciliations on 11 of the smaller balance accounts to correct the Mexico City FSC's book cash balances and Treasury reports. We reviewed completed account reconciliations through April 30, 1996, for the 11 active foreign currency bank accounts, tested the mathematical accuracy of amounts, traced amounts to the State Department's FS 467 Analysis of Balance Due the United States reports, and examined supporting documentation on reconciliation increases or decreases in excess of \$10,000.

For these 11 accounts having a book balance of about \$191,000 as of April 30, 1996, the CRU was able to identify transactions which, when recorded, increased amounts on the FSC's books by \$5.2 million due to

- deposits recognized by the banks but not recorded in the books,
- cancellation of old outstanding checks never cleared by the banks, and
- other miscellaneous credits.

For these accounts, the CRU also identified transactions that, when recorded, decreased amounts on the FSC's books by \$5.1 million due to

- deposits recorded as in-transit that had cleared,
- bank charges that had not been recorded in the books, and
- other miscellaneous charges.

While the CRU and the Mexico City FSC had made a commendable effort to reconcile active foreign currency bank accounts by April 30, 1996, much work remained to be done.

⁴All dollar amounts used in this letter are U.S. equivalents as of April 30, 1996.

ADDITIONAL WORK IS NEEDED TO
CLOSE OUT MEXICO CITY FSC ACCOUNTS

As of April 30, 1996, the Mexico City FSC had not completed work in (1) two areas related to the 31 accounts we were asked to review and (2) two additional areas we identified during our review.

First, of the 30 active foreign currency accounts, the 19 larger balance accounts had not been fully reconciled, closed out, or transferred to the Charleston FSC. According to book records as of April 30, 1996, these 19 foreign currency accounts had balances of about \$2 million. Seven accounts had been reconciled through March 1996, two through February 1996, two through January 1996, six through various months in 1995, and two through November 1994. As of those dates of reconciliation, the CRU had identified transactions to be recorded on the Mexico City FSC's books that would increase cash balances by \$5.289 billion and others that would decrease cash balances by \$5.256 billion, for a net cash increase of \$33 million.

Second, the active U.S. dollar account we were asked to review had not been reconciled since July 1993, closed out, or transferred to the Charleston FSC. This account, which had been set up to process U.S. dollars collected by post cashiers for consular services, had a cash balance of about \$2,000 as of April 30, 1996, according to bank records. Although a contractor had been hired to perform the reconciliation, it had been delayed because bank statements for August to November 1993 and April to May 1994 could not be located.

Complicating the reconciliation of this account was a verbal agreement that allowed the bank to deduct any bad checks accepted for accommodation exchange,⁵ plus a bank fee. After these costs were deducted from the account, the bank provided the bad checks to the FSC, which passed them to the Mexico City embassy cashier's office. This office attempted to contact the person who wrote the check and collect the amount of the check, plus the bank fee. However, neither the FSC nor the embassy cashier maintained a list of the bad checks, recorded the check amounts and bank charges as an accounts receivable,

⁵Accommodation exchange is a service provided by post cashiers in cashing checks from individuals and companies on U.S. government business.

or recorded-amounts that had been subsequently recovered. A total of about \$64,000 in bad checks and bank fees identified through July 31, 1993, as well as an unidentified amount of recoveries that had been commingled with other deposits, had not been recorded on the Mexico City FSC's books.

Third, during our review we identified four additional foreign currency accounts under USDO symbol 8531 (which brings the total to 34 such accounts) that had been reconciled but had not been closed out or transferred to the Charleston FSC. As of April 30, 1996, the cash balances of three of these inactive foreign currency accounts totaled about \$25,000 and a frozen⁶ foreign currency account had about a \$46,000 balance, according to bank records.

Finally, we noted that accountable balances for governmental funds had not been reconciled and cleared by 22 post cashiers or the Mexico City FSC disbursing officer. Section 3325 (a) of 31 U.S.C. provides that disbursing officers are accountable for ensuring that payment vouchers are prepared in proper form, certified, approved, and recorded in the correct account. We found the following:

- Accountable balances totaling a net payout of \$131,000 by 22 post cashiers as of April 30, 1996, required reconciliation and clearance to the proper account. The largest balance (about \$71,000) represented four wire transfers from the FSC to a post. These transfers had not been received due to a wrong account number, and a further investigation was in process.
- According to accountability records, the Mexico City FSC disbursing officer had about \$717,000 in cash on hand as of April 30, 1996. However, we observed that there was no cash on hand at the time of our May 1996 visit. The current disbursing officer confirmed that he had no cash on hand and stated that the safe had been empty when he was appointed on April 1, 1996. He stated that he believed the cash in U.S. dollars had been converted to foreign currency by previous disbursing officers and sent to various posts. He is currently researching what happened to these funds and stated that he is hoping to find a record of the receipt or deposit of these funds during the reconciliation and closeout of the Mexico City FSC accounts.

⁶The account was frozen in January 1994 when the foreign bank became insolvent and local currency bonds were offered to settle the account.

The lack of the required monthly reconciliations and clearance of accountable officer balances at the Mexico City FSC weakened basic internal controls, created opportunities for fraud and abuse, and resulted in the more difficult and costly catch-up effort by the CRU, which has been ongoing since January 1995.⁷ It is imperative that Charleston FSC staff institute and routinely perform monthly reconciliations of transferred foreign currency accounts and clear accountable officer balances in order to maintain strong internal controls and to comply with Treasury regulations and accountable officer statutes.

We conducted our work in Mexico City, Mexico, in May 1996 in accordance with generally accepted government auditing standards. We obtained comments on a draft of this letter from Department of State officials and have incorporated their views as appropriate.

We are sending copies of this letter to the Department of State's Inspector General; Director of International Financial Services; and Director of International Financial Services, Office of Financial Management Overseas. If you or your staff have any questions concerning this letter, please contact me at (202) 512-9095, or Roger Stoltz, Assistant Director, at (202) 512-9408.

Sincerely yours,



Lisa G. Jacobson
Director, Defense Financial Audits

(918890)

⁷In addition to reconciling the accounts discussed in this letter, CRU staff were involved in completing reconciliations of 24 inactive foreign currency bank accounts we assessed earlier.

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